

## Message Text

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16

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 NEA-10 ISO-00 SEC-01 FEA-01 OES-03

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00

FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01

OMB-01 /108 W

----- 036106

R 160423Z NOV 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4079

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

USMISSION OECD PARIS UNN

USMISSION EC BRUSSELS

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DEPT PASS TREASURY, FRB, SEC AND EXIMBANK FOR INFO

E.O. 11652: N/A

TAGS: EFIN KU

SUBJECT: FIRST LOCAL BOND ISSUE AND KUWAIT CAPITAL  
REQUIREMENTS

SUMMARY: INDUSTRIAL BANK OF KUWAIT IN PROCESS MAKING FIRST  
LOCAL BOND ISSUE AS PART OF KUWAITI ATTEMPT ESTABLISH CAPITAL  
MARKET HERE. BECOMING INCREASINGLY APPARENT THAT KUWAITI  
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INSTITUTIONS WILL BE GOING INTO MARKET TO SATISFY MEDIUM AND

LONG TERM CAPITAL REQUIREMENTS. EMBASSY BELIEVES THIS COULD BE OF INTEREST TO AMERICAN FINANCIAL COMMUNITY, BUT KUWAITI ACTIVITY TOGETHER WITH SIMILAR MOVES BY OTHER OPEC STATES COULD SKIM OFF FUNDS THAT WOULD OTHERWISE BE AVAILABLE TO OTHER, NEEDIER BORROWERS. END SUMMARY  
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1. INDUSTRIAL BANK OF KUWAIT (IBK) ISSUING PROSPECTUS NOVEMBER 15 FOR FIRST-EVER LOCAL PUBLIC BOND ISSUE IN KUWAIT. PLANS FOR BOND ISSUE HAVE BEEN UNDERWAY FOR OVER A YEAR, AND IBK HAS CONSULTED WITH KUWAIT CENTRAL BANK AND US SEC AMONG OTHERS. ISSUE WILL BE KD 5 MILLION (KD1 - \$3.50) IN THREE YEAR BEARER BONDS CARRYING 6 1/2 PERCENT INTEREST. LEAD MANAGER WILL BE KUWAIT FOREIGN TRADING, CONTRACTING AND INVESTMENT COMPANY, AND PRINCIPAL UNDERWRITERS WILL BE OTHER LOCAL FINANCIAL INSTITUTIONS. BONDS CAN BE OWNED BY KUWAITIS OR FOREIGNERS. THIS FIRST LOCAL DEBT ISSUE, WHICH IS SOMETHING OF AN EXPERIMENT, LIKELY TO BE FOLLOWED BY OTHERS AS KUWAITIS ATTEMPT ESTABLISH CAPITAL MARKET HERE.  
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2. MORE SIGNIFICANTLY, WE HAVE BEGUN TO HEAR OF LARGE LOCAL COMPANIES PLANNING MAJOR BORROWINGS IN RELATIVELY NEAR FUTURE, AND SIZE OF TOTAL BORROWINGS ALMOST CERTAINLY WILL BE MORE THAT LOCAL INSTITUTIONS ABLE TO MANAGE. WE HAVE

LEARNED, FOR EXAMPLE, THAT PETROCHEMICALS INDUSTRIES COMPANY (PIC) HAS ASKED LOCAL BANKS HOW THEY CAN ASSIST COMPANY IN SATISFYING SEVERAL HUNDRED MILLION DOLLARS WORTH OF FINANCING OVER NEXT TEN YEARS. PIC WILL BE ABLE GENERATE AT LEAST \$200 MILLION FROM ITS OWN RESERVES AND EARNINGS, BUT IT

PLANNING ON AS MUCH AS \$1 BILLION IN PROJECTS DURING PERIOD. COMPANY ANTICIPATES HAVING PEAK OUTSTANDING DEBT OF KD 90 MILLION IN 1978.

3. IN ADDITION TO PIC WE AWARE OF SEVERAL OTHER GOK-OWNED,  
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MIXED AND PRIVATE KUWAITI COMPANIES WITH LARGE CAPITAL REQUIREMENTS OVER SAME PERIOD. FOR EXAMPLE, KUWAIT NATIONAL PETROLEUM COMPANY PROBABLY WILL UNDERTAKE NEW REFINERY, SHIPPING AND OTHER PROJECTS WHICH WILL COST ON ORDER OF \$1.5 BILLION DURING NEXT FIVE YEARS OR SO. LOCAL BANKERS UNANIMOUS IN OBSERVING THAT THEIR INSTITUTIONS CANNOT MEET EVEN PIC'S REQUIREMENTS, LET ALONE OTHER COMPANIES' DEMANDS. IBK WILL BE ABLE SATISFY SOME MEDIUM AND LONG TERM REQUIREMENTS, BUT

NOT ALL OF THEM.

4. KEY, THEREFORE, WILL BE GOK. IT CERTAINLY WILL HAVE SUFFICIENT RESOURCES TO FUND VARIOUS PROJECTS, BUT WE BELIEVE POSSIBILITY EXISTS THAT MINISTRY OF FINANCE COULD DECIDE TO ALLOW LOCAL COMPANIES TO OBTAIN SOME FUNDS FROM INTERNATIONAL MARKET WHILE CREDIT OF KUWAIT IS HIGH. GOK PROBABLY WILL GUARANTY BORROWINGS, HOWEVER. THIS WILL ALLOW GOK TO MAINTAIN ITS OWN FUNDS IN INCOME EARNING INVESTMENTS OR TO BE USED FOR PRIORITY AID OR OTHER (E.G. MILITARY, HOUSING) PROGRAMS.

5. WE THINK IT LIKELY THAT AS LARGE KUWAITI COMPANIES SEEK TO SATISFY THEIR LARGE CAPITAL REQUIREMENTS, SOME WILL BE SELF-GENERATED THROUGH COMPANY RESERVES AND EARNINGS, SOME WILL COME FROM LOCAL FINANCIAL INSTITUTIONS, SOME WILL COME DIRECTLY FROM GOK, BUT SOME WILL BE SOUGHT FROM INTERNATIONAL FINANCIAL MARKET. WE WOULD ANTICIPATE SUCH ACTIVITY TO BEGIN IN 1976 AND TO INTENSIFY BETWEEN 1977 AND 1980.

6. KUWAITI ACTIVITY BY ITSELF PROBABLY WILL NOT BE LARGE ENOUGH TO HAVE GREAT AFFECT ON FINANCIAL MARKETS. BUT IT WILL BE PART OF LARGER OPEC BORROWINGS WHICH RECENTLY HAVE INCLUDED IRAQI, ALGERIAN AND IRANIAN BORROWINGS. IF KUWAITI AND OTHER OPEC BORROWERS ARE MORE ATTRACTIVE TO LENDERS AS WE THINK THEY WILL BE, IT WOULD SEEM TO FOLLOW THAT FEWER FUNDS WILL THEREFORE BE AVAILABLE TO OTHER LESS ATTRACTIVE BUT NEEDIER BORROWERS. TOLTZFUS

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BONDS, FINANCIAL PROGRAMS, CAPITAL (FINANCE)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 16 NOV 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975KUWAIT04771  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750399-0361  
**From:** KUWAIT  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19751139/aaaabizy.tel  
**Line Count:** 143  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 29 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <29 APR 2003 by BoyleJA>; APPROVED <30 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FIRST LOCAL BOND ISSUE AND KUWAIT CAPITAL REQUIREMENTS  
**TAGS:** EFIN, KU  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006